

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 4 \*\*CORRECTED\*\*  
Bill Version: SCS CSHB 3001(NGD)  
(S) Publish Date: 8/9/06

Revision Date/Time (Note if correction): 8/9/2006 20:46 Dept. Affected: Revenue  
Title: An Act Relating to the Production Tax on RDU: Tax and Treasury  
Oil and Gas Component: Tax  
Sponsor: Rules Committee  
Requester: Governor Component No. 2476

## Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	813.1	829.4	845.9	862.9	880.1	897.7
Travel						
Contractual	522.5	485.4	115.7	116.1	118.4	120.8
Supplies	36.7					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
<b>TOTAL OPERATING</b>	<b>1,425.3</b>	<b>1,367.8</b>	<b>1,014.6</b>	<b>1,032.0</b>	<b>1,051.5</b>	<b>1,071.5</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>See analysis section -----</b>	
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## FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,425.3	1,367.8	1,014.6	1,032.0	1,051.5	1,071.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>1,425.3</b>	<b>1,367.8</b>	<b>1,014.6</b>	<b>1,032.0</b>	<b>1,051.5</b>	<b>1,071.5</b>

Estimate of any current year (FY2006) cost: \_\_\_\_\_

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

## POSITIONS

Full-time	9	9	9	9	9	9
Part-time						
Temporary						

## ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a tax of 22.5% less a credit of 20% which applies to capital costs upstream of the point of production. Thirty cents per barrel are exempt from the capital deduction and credit. There would also be a progressive surcharge based on 0.25% of the difference between actual per barrel net income and \$40, applied to net income. The surcharge would not be considered a deductible lease expenditure.

There would be an additional allowance of up to \$12 million per company for companies producing less than 50,000 barrels of oil equivalent per day; this amount is reduced as production reaches 100,000 boe per day, the point at

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Approved by: Jerry Burnett  
Agency: Department of Revenue

Date 8/9/2006

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**BILL NO.** SCS CSHB 3001(NGD)

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**ANALYSIS CONTINUATION**

which no allowance is authorized. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2006, recoverable at \$1 for every \$2 in capital expenditures. Transition costs cannot be recovered after 2013. The minimum tax is 1% of gross income when West Coast ANS prices are \$15-\$17.50, 2% when \$17.50-\$20, 3% when \$20-\$25, and 4% when over \$25.

The additional conservation surcharge on oil is increased from 3 cents to 4 cents.

The bill would be effective April 1, 2006.

The figures in the table on the next page reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Dept. of Revenue for Prudhoe Bay stands.

The cost assumptions are as follows:

- \$100 mm/yr exploration
- \$1/bbl on-going capital on all barrels
- \$3.50/bbl developmental capital on 2/3 of existing conventional oil
- \$8/bbl developmental capital on 2/3 of existing heavy oil
- \$3.50/bbl developmental capital on new conventional oil
- \$8/bbl developmental capital on new heavy oil
- \$3/bbl operating cost on conventional oil
- \$5/bbl operating cost on heavy oil

The table shows the 2007-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a \$40 price, and a \$60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 8 additional positions for auditors: 1 O & G Specialist (Range 23), 3 O & G Revenue Auditor IV (Range 22), and 4 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 1 additional Tax Tech III position (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenditures include \$100,000 and \$70,000 for programming in FY 07 and FY 08, respectively, \$300,000 in each of FY 07 and FY 08 for help in writing regulations, \$100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions.

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**ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)**

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 4/1/06. At a preliminary estimated quarter end price of \$65, the bill would provide approximately \$420 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$53.60	989	1912	923
2008	\$46.90	784	1485	701
2009	\$25.50	355	396	41
2010	\$25.50	315	360	45
2011	\$25.50	281	356	75
2012	\$25.50	271	351	80

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Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$40.00	708	1131	423
2008	\$40.00	655	1102	447
2009	\$40.00	631	1179	548
2010	\$40.00	582	1144	562
2011	\$40.00	544	1169	626
2012	\$40.00	536	1179	644

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Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$60.00	1,120	2425	1,306
2008	\$60.00	1,032	2366	1,335
2009	\$60.00	978	2484	1,506
2010	\$60.00	901	2420	1,519
2011	\$60.00	842	2468	1,626
2012	\$60.00	831	2489	1,657

\*Numbers may not sum due to rounding.